

**CHESTERFIELD COUNTY**  
P.O. Box 40  
CHESTERFIELD, VIRGINIA 23832-0040

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COUNTY ADMINISTRATOR

October 1, 2004

The Honorable Members of the Board of Supervisors  
County of Chesterfield, Virginia

Members of the Board:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of Chesterfield County (the County) for the fiscal year ended June 30, 2004. State law requires that all local governments have all their accounts and records, including all accounts and records of their constitutional officers, audited annually as of June 30 by an independent certified public accountant and that an audited financial report is submitted on or before November 30 to the Auditor of Public Accounts of the Commonwealth of Virginia (APA). This report has been prepared by the Accounting Department in accordance with the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the APA.

The CAFR was prepared with an emphasis on full disclosure of the financial activities of the County. Responsibility for both the completeness and the reliability of the contents rests with County management. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

KPMG LLP, a firm of licensed certified public accountants, audited the County's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

Providing a **FIRST CHOICE** community through excellence in public service.

The independent audit of the financial statements of the County was part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditors to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the compliance section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County’s MD&A can be found immediately following the report of the independent auditors.

### **Profile of the Government**

The County is located in east-central Virginia, adjacent to the City of Richmond, and is a growing suburban, residential area, with concurrent commercial growth and industrial development. The County encompasses a land area of approximately 446 square miles with a population of approximately 284,000. A large portion of the land in the County, especially in the southwestern area, remains rural. The County is empowered to levy a property tax on both real and personal properties located within its boundaries.

Effective January 1, 1988, the County began operating pursuant to a County Charter approved by the citizens of the County in a referendum election and subsequently enacted by the Virginia General Assembly. The County is an independent political subdivision of the Commonwealth of Virginia with no subordinate political entities within its borders and the County is absolutely immune from annexation by adjacent localities. The governing body of the County is the Board of Supervisors (the Board) that establishes policies for the administration of the County. The Board is composed of five members, one member elected from each of five magisterial districts. A member must be a resident of the district that he/she serves. Members are elected for four-year terms. The current Board was elected on November 4, 2003. The Board appoints a chief executive officer, known as a County Administrator, who serves at the pleasure of the Board and carries out the policies established by the Board.

The County provides a full range of municipal services. Major programs include public safety, health and welfare, parks, recreation and cultural activities and community development. Additionally, the County operates an airport and water and wastewater utility systems.

The financial reporting entity includes all of the funds of the County, the primary government, as well as all of its component units. Two discretely presented component units, the School Board and the Health Center Commission, are included in the reporting entity because of the County’s financial accountability for these organizations; however, these component units are reported separately within the County’s financial statements. Additional information on these legally separate organizations can be found in Note 1 to the financial statements.

The biennial budget serves as the foundation for the County’s financial planning and control. Beginning fiscal year 2005 – fiscal year 2006, the Board is required to hold a public hearing on the proposed budget and to adopt a final budget by each May 1<sup>st</sup> whereby the first year of the biennium, expenditures are appropriated and the second year of the biennium expenditures are planned. The appropriated budget is at the function level for the General Fund and at the fund level for the Comprehensive Services Fund. The County Administrator is authorized to amend appropriations by transferring unencumbered appropriated amounts within appropriation function or to increase any appropriation function up to \$20,000. The Board must approve most other amendments that increase the total appropriation of any function level.

### **Factors Affecting Economic Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

#### **Local economy**

Economic activity in the County is closely associated with that of the Richmond metropolitan area. At the state and regional levels, the latest economic data indicates that the economy remains fairly solid and the near term outlook is positive. Because of its land area, availability of quality labor, enterprise zones, moderate tax structure and favorable business climate, the County has

become a desirable location in recent years for new businesses locating in the metropolitan region. Commercial and industrial activity, therefore, has kept pace with the once rapid population growth that the County experienced. Although manufacturing and wholesale and retail trade establishments are the major employers in the County, there is considerable diversification of employment opportunities. The County's unemployment rate for 2003 averaged 3.2%, up from 3.0% the previous year. However, the County fared better than the 2003 unemployment rates of the Richmond/Petersburg metropolitan statistical area (MSA) of 4.3% and the Commonwealth of Virginia (the Commonwealth) of 4.1%. Based on employment data for fiscal years 1992 through 2002, employment in the County has increased at an average annual rate of 2.3% since 1997, compared with 1.2% in the Richmond/Petersburg MSA and 1.5% in the Commonwealth.

**Wage and Salary Employment<sup>(1)</sup>  
By Place of Work**

	1992 <sup>(2)</sup>	1997	% Change	2002	% Change
Chesterfield County	79,656	97,067	21.9%	108,924	12.2%
Richmond/Petersburg MSA	454,967	515,145	13.2%	545,816	6.0%
Commonwealth of Virginia	2,755,305	3,146,984	14.2%	3,391,313	7.8%

<sup>(1)</sup> Nonagricultural employment

<sup>(2)</sup> Chesterfield County figure is estimated due to VEC disclosure suppression of data for agricultural sector

Source: Virginia Employment Commission, Labor Market Information

Chesterfield recognizes the importance of expanding the business tax base to provide revenues for needed services and has made a commitment to promoting economic development. New economic activity for fiscal year 2004 included both commercial and industrial projects. The Department of Economic Development assisted with existing company expansions and new company locations. New and expanding businesses invested more than \$130.0 million and created five hundred twenty-six new jobs.

Magellan Systems International, LLC, a producer of specialty fibers, has located a research and development facility in the County. The company will lease 30,000 square feet of space in the Jeff Davis Enterprise Center and has begun setting up a pilot plant facility at the same location. Thirty-five employees were hired during the first phase and an additional twenty-five new employees will be hired by the year's end. Total projected investment in the project will approach \$42 million.

Honeywell announced a \$20 million investment to boost production of Spectra® fiber to meet increased demand from the North American armor industry. Honeywell expects to make several similar-sized investments in Honeywell Performance Products over the next few years to boost Spectra® fiber production. The current investment will take place at Spectra® fiber manufacturing facilities at Honeywell's Technical Center in Chesterfield County. The expansion will be completed in the second quarter of calendar year 2005. The additional production will be primarily devoted to meeting U.S. military requirements.

The County is still considered to have the best available location for the next semiconductor chip manufacturing company at Meadowville Technology Park. In addition to this area, the creation of the Virginia Bio Technology Research Park at Meadowville will allow the County and the research park to jointly market prospects for either site and elevate biosciences in the Richmond area. Located just south of the Interstate 295 Varina-Enon Bridge and 15 miles from the downtown research park, the satellite location, which will be part of the Meadowville Technology Park, will have the capacity for approximately 2 million square feet of combined office, laboratory and manufacturing space.

The majority of space in the southwestern quadrant of the metropolitan Richmond area market including Chesterfield County is primarily office buildings. The quadrant's office vacancy rate decreased from 18.9% as of June 2003 to 13.8% as of June 2004. There continues to be strong demand for small owner/occupant office buildings. Another section of Route 288 including a new James River crossing is now open. This new route significantly cuts the commuting time across the river and is expected to increase economic development potential for the northwestern area of the County. Over the next several years, with effective planning and the support of local property owners and citizens, this area is expected to become one of the region's premier office and light industrial employment centers.

Retail sales continued to improve in the Richmond-Petersburg region during the calendar year 2003. For the calendar year 2003, taxable retail sales increased by 8.6% to \$2.94 billion. Taxable retail sales in the County historically have increased at rates greater than the increase in both the Richmond/Petersburg MSA and the Commonwealth. The average annual rate of change in the County over the period 1993-2002 was 5.6% compared to 4.6% and 5.2% for the Richmond/Petersburg MSA and the Commonwealth respectively.

**Taxable Retail Sales**  
(\$ in 000's)

Year	Chesterfield County	% Change	Richmond/ Petersburg MSA	% Change	Commonwealth of Virginia	% Change
1993	1,731,682	9.6%	7,595,556	7.8%	46,705,684	8.9%
1994	1,852,798	7.0%	8,059,954	6.1%	49,728,091	6.5%
1995	1,958,733	5.7%	8,484,548	5.3%	52,087,011	4.7%
1996	2,051,750	4.7%	8,895,969	4.8%	53,923,260	3.5%
1997	2,197,966	7.1%	9,443,757	6.2%	57,047,801	5.8%
1998	2,326,486	5.8%	9,948,948	5.3%	60,113,811	5.4%
1999	2,433,377	4.6%	10,228,443	2.8%	64,068,575	6.6%
2000	2,587,315	6.3%	10,980,132	7.3%	68,661,581	7.2%
2001	2,623,909	1.4%	10,783,699	-1.8%	68,725,289	0.1%
2002	2,713,035	3.4%	11,002,014	2.0%	70,645,313	2.8%

Source: Weldon Cooper Center for Public Service/University of Virginia

### Long-term financial planning

The County prepares and approves a biennial financial plan which provides a view of future resource allocations by presenting balanced revenue and expenditure projections for the three years succeeding each biennium. These multi-year projections permit policy makers and staff to foresee future needs and to plan for managed growth of services. Additionally, the multi-year budgeting process allows the County to rationally plan for multi-year acquisitions and program financing, thereby allowing for maximized cash flow and investment. Development of this plan is guided by the strategic goals approved by the Board. Key Board objectives and other immediate priorities also help shape the biennial financial plan which is centered on two broad themes: the County's overall strategic purpose and the allocation of available resources to best reach the County's vision.

The County annually prepares a Capital Improvement Program (CIP). This CIP serves as a planning tool for the efficient, effective, and equitable distribution of public improvements throughout the county. The CIP represents a balance between finite resources and an ever-increasing number of competing County priorities. This balance was achieved using the priorities and objectives established by the Board of Supervisors consistent with the County's Strategic Plan.

The fiscal years 2005-2011 CIP totals \$708.9 million and is comprised of County improvements of \$233.7 million, School Board improvements of \$324.5 million and Utilities Department improvements of \$150.7 million, \$90.4 million for water and \$60.3 for wastewater. The Board of Supervisors and the School Board have agreed to plan for a bond referendum in the fall of 2004. As such, this seven-year CIP identifies projects in the fiscal years 2005-2011 planning period that are proposed to be placed in the referendum.

This CIP represents a continued decreased reliance on long-term financing for general County improvement projects. Further, in keeping with the Board of Supervisors' financial policy regarding funding a portion of capital improvements with current revenues, this Program exceeds the targeted current revenue funding levels for both general County and school projects. The County has a goal of funding 20.0% of the general County projects and 10.0% of the school projects with current revenues. This CIP proposes current revenue funding levels of 29.9% for the County projects and 19.2% for school projects over the seven-year period.

In summary, this CIP continues the process of planning for a referendum in the fall of 2004. The Program sustains the County's strong financial position, proposes affordable service enhancements, including an emphasis on aging facilities, and presents to the citizens of Chesterfield County the broad range of capital facilities required of a FIRST CHOICE community.

In response to the fiscal challenges inherent to the economic environment, the County adopts a conservative approach toward financial and debt management. The portion of the County's operating budget dedicated for repayment of debt is set by policy at 10.0% of general government expenditures. The fiscal years 2005-2011 CIP proposes an even lower percentage with the intention of maintaining a debt ratio closer to 8.5% of general government expenditures. The County's policy of funding a large portion of capital expenditures "as we go" by consistently reserving 5.0% of operating expenditures for capital investments further enhances debt management.

In addition, each year the County dedicates 7.5% of total general fund expenditures to fund balance. This is a tenet of the Board's commitment to prudent financial planning because it eliminates the need for short term borrowing, ensures that current obligations including debt payments can be met, and provides a cushion against the potential shock of any unexpected change in revenues. This practice, along with our conservative debt management policies, allows the County to maintain its triple AAA bond rating received from all three major rating agencies.

Major accomplishments of the fiscal year include a significant investment in school facilities. The Board approved a comprehensive agreement for the construction of a new high school under the Public-Private Education Facilities and Infrastructure Act of 2002. Approval allows for this new high school to be completed two years earlier than originally planned. General obligation bonds sold through the Virginia Public School Authority at an opportune time resulted in significantly reduced costs of financing – the true interest cost of the bonds is 3.8%. Other capital improvement projects have been completed in the past year, including the airport terminal expansion, the Rivers Bend fire and rescue station, the juvenile detention home and various improvements to school and park facilities.

The metro area, including the County, can be proud of the new and expanded convention center that opened in 2003. The County, serving as fiscal agent for the Greater Richmond Convention Center Authority, contributes an 8.0% collected transient occupancy tax to the authority for operating and debt service expenses of which 2.0% is rebated to the County at the end of each fiscal year. This new 700,000 square foot facility provides premier convention space, including an 180,000 square foot exhibition hall for groups from around the country.

The biggest challenge of fiscal year 2004 was the County's response to Hurricane Isabel, an extraordinary, devastating natural disaster that impacted both the County and the surrounding region. Widespread damage and prolonged power outages primarily caused by tens of thousands of downed trees required a massive effort by the local, state and federal governments to provide assistance to citizens. The largest of the County initiatives was to provide for the curbside removal of debris. The County approved a contract for the emergency removal of storm debris enabling a response immediately after the storm. Costs of the contract will be reimbursed largely by emergency relief funds from both the United States Department of Homeland Security's Federal Emergency Management Agency (FEMA) and the Commonwealth. See Note 17 on page 79 for a detailed discussion of this extraordinary item.

### **Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Chesterfield County for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. This was the twenty-third consecutive year that the County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

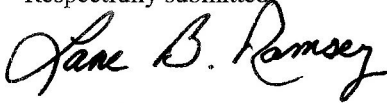
A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The Budget and Management Department received an award for Distinguished Budget Presentation from GFOA for its biennial budget for the fiscal year beginning July 1, 2003, making Chesterfield one of only a few local governments in the country to receive the award for twenty consecutive years. By earning this award, Chesterfield continues to demonstrate the strong leadership that is needed to handle the challenges that face local governments on a daily basis.

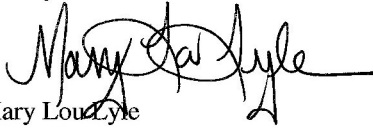
The National Institute of Governmental Purchasing (NIGP) of the United States, Canada, Ireland, and England established an agency accreditation program which recognizes excellence in public purchasing by establishing a body of standards that should be in place for a quality purchasing operation. In October 2002, the NIGP reaccruited the Chesterfield County Purchasing Department with the Outstanding Agency Accreditation Achievement Award for demonstrating excellence in public purchasing. When certification was first obtained in 1999, Chesterfield County's Purchasing Department was the eighth agency overall and the first locality or state agency in Virginia to receive this award. Accreditation certification is valid for three years at which time the agency will be required to reaccruite.

We would like to express our appreciation to the staff of the Accounting Department who contributed to the timely preparation of this report. We would also like to thank the members of the Board of Supervisors for your interest and support in planning and conducting the financial operations of the County in a responsible and progressive manner.

Respectfully submitted



Lane B. Ramsey  
County Administrator



Mary Lou Lyle  
Director of Accounting